

| No. | Matter | Y | N |
|--|--|--------------------------|--------------------------|
| Follow-up of audit findings | | | |
| 13. | The prior year audit findings have been substantially addressed. | | <input type="checkbox"/> |
| 14. | SCOPA/Oversight resolutions have been substantially implemented. | | <input type="checkbox"/> |
| Issues relating to the reporting of performance information | | | |
| 15. | The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete. | | <input type="checkbox"/> |
| 16. | Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information. | | <input type="checkbox"/> |
| 17. | A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipality against its mandate, predetermined objectives, outputs, indicators and targets section 68 of the MFMA (municipalities). | | <input type="checkbox"/> |
| 18. | There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance. | <input type="checkbox"/> | |

60. Based on the above, the overall governance framework of the municipality is weak and requires improvement.

Investigation

61. An investigation is currently being conducted by the internal auditors into various allegations at the Municipality's traffic unit. The investigation is expected to be concluded in the 2009/10 financial year.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

62. I have reviewed the performance information as set out on pages xx to xx.

The accounting officer's responsibility for the performance information

63. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

64. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

65. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

66. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings on performance information

Content of integrated development plan

67. The integrated development plan of the Mbonambi Municipality did not include input and outcome indicators with regard to the municipality's development priorities and objectives set out in its IDP.

Reported performance information not reliable

68. It was noted that the development strategies indicated on the report of the annual performance information do not correspond with the development strategies included in the IDP. There was no clear link between the IDP and the Performance information report. I was therefore unable to satisfy myself as to the completeness and accuracy of information reported on performance information.

APPRECIATION

69. The assistance rendered by the staff of the Mbonambi Municipality during the audit is sincerely appreciated.

Pietermaritzburg

30 November 2009



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

**REPORT OF THE AUDITOR-
GENERAL OF MFOLOZI (MBONAMBI)
MUNICIPALITY**

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL
PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL
STATEMENTS AND PERFORMANCE INFORMATION OF MBONAMBI
MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Mbonambi municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages [xx] to [xx].

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
4. Paragraph 11 *et seq.* of the Standards of GRAP, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Mbonambi municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

Basis for disclaimer of opinion

Trade and other receivables from exchange transactions

5. Trade and other receivables from exchange transactions includes an amount of R934 044 outstanding for more than 365 days as reflected in note 2 to the financial statements. There was no interest raised on these debtors, nor was there any evidence of the consideration of any fair value adjustment for such long-outstanding amounts. This is contrary to the requirements of International Accounting Standard 39 - Financial instruments recognition and measurement. The records of the municipality did not permit the application of alternative audit procedures and the error could not be determined. Consequently, there is doubt about the reasonableness of the carrying value of this component of accounts receivable in the statement of financial position.

Other receivables from non-exchange transactions

6. No evidence was provided to support the balance of R756 653 reflected as 'other receivables from non-exchange transactions' on the statement of financial position and as reflected in Note 3 to the financial statements. The records of the municipality did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself as to the existence, completeness, rights and valuation of this balance.

Value added tax receivable

7. An adjustment has been made in respect of the current year input VAT to the value of R1 578 155, however, no supporting documentation in respect of the breakdown of expenses affected by this adjustment have been provided. Furthermore, the transfer of the VAT receivable debit of R1 988 746 from trade and other payables from exchange transactions was not effected. Consequently, I was unable to obtain adequate information and explanations to satisfy myself as to the existence, completeness, and valuation of the VAT receivable balance of R1 578 155.

Unspent Conditional Grants

8. Included under current assets on the statement of financial position is an amount of R6 632 195 in respect of 'Unspent Conditional Grants'. There was no evidence provided in support of this amount, or the movement of R17 892 320, from a liability of R11 260 125 at the end of June 2008 to the amount reflected as being receivable. Consequently, I was unable to satisfy myself as to the existence, completeness, rights and valuation of the amount reflected as 'Unspent Conditional Grants' as reflected in Note 12 to the financial statements. Furthermore, Note 12 to the financial statements in respect of Unspent Conditional Grants is incomplete as it does not detail the composition of the balance of R6 632 195.

Property, plant and equipment

9. Prior year comparatives for property, plant and equipment were not restated on the financial statements.

10. The opening carrying value as at 1 July 2008 of R20 908 452 as per the note 4 of the financial statements does not agree to the closing carrying value of R25 716 650 as at 30 June 2008 as per note 4.
11. The amount as per the statement of financial position reflects an amount of R18 364 768 which could not be agreed to note 4 in respect of Property, plant and equipment which reflects a carrying value of R19 493 444, resulting in a difference of R1 128 676.
12. Note 4 to the financial statements in respect of Property, plant and equipment indicates an opening cost of R25 581 281. This does not agree to the cost per the prior year audited financial statements of R26 181 164 resulting in a difference of R599 883.
13. Due to the matters described in paragraph 8 to paragraph 11 above, Property, Plant and Equipment is not correctly presented and disclosed in the financial statements.
14. During the physical verification of assets, items from the fixed asset register could not be located. Furthermore, repairs and maintenance expenses were incurred in respect of vehicles not included on the fixed asset register. It was later established that these vehicles were actually assets of the municipality. As Property, plant and equipment of R18 364 768 reflected in the statement of financial position is based on the amounts per the fixed asset register, I could not satisfy myself on the completeness and existence of assets disclosed per the financial statements.

Investment property

15. No investment property register was provided to support the amount of R1 590 000 recognised as Investment property in the statement of financial position and note 5 to the financial statements. The records of the municipality did not permit the application of alternative audit procedures. In the absence of any documentation that would indicate the composition of the above amount, I was unable to satisfy myself as to the existence, completeness, and rights and valuation of this balance.

Trade and other payables from exchange transactions

16. Included in Trade and other payables from exchange transactions were suspense accounts totaling R8 389 584 and a debit balance to the value of R1 946 582 for which there was no supporting evidence provided to enable verification of the appropriateness of the accounting treatment thereof.
17. Adjustments totaling R4 358 091, increasing Trade and other payables from exchange transactions, were not supported by any documents to enable a verification of their nature and appropriateness.
18. There is no formal system in place for creditors with the result that invoices are processed only when payment is made and an invoice register is not maintained to ensure completeness of creditors. As a result of the above, I was unable to satisfy myself as to the existence, completeness, obligations and valuation regarding

Trade and other payables from exchange transactions as reflected in Note 6 to the financial statements.

Provision for leave and bonus

19. Provision for leave and bonus is reflected as R1 167 826 in the statement of financial position and note 11 thereto. Based on calculations and journals provided, this provision is R656 104. Consequently, Provision for leave and bonus is overstated by an amount of R511 721, with the overall deficit being overstated by the same amount.

Bank overdraft

20. The bank overdraft per the statement of financial position is reflected at R13 994 017. The total value of the bank accounts per the bank confirmation, however, reflects a total of R155 871 in favour of the municipality. No reconciliation was made available to enable a clearance of the resultant difference of R14 149 888 and to ascertain the effect thereof on any other account balances in the financial statements. The records of the municipality did not permit the application of alternative audit procedures. Consequently I was unable to satisfy myself as to the existence, completeness, obligations and valuation of the bank overdraft balance of R13 994 017.
21. The overdraft balance of R13 994 017 is disclosed as "cash at bank" in the note 1 to the financial statements and therefore does not specify that this is a bank overdraft.

Accumulated deficit

22. The accumulated deficit of R13 124 157 reflected in the statement of financial position and statement of changes in net assets does not take into account the financial effects of the changes in accounting policies relating to the implementation of Standards of GRAP. Note 28.4 to the financial statements reflects an amount of R 29 615 951 resulting from the implementation of Standards of GRAP. The Accumulated deficit is accordingly misstated.
23. Note 28.4 to the financial statements reflects an amount of R6 564 733 in respect of backlog depreciation. The backlog depreciation does not agree to the backlog depreciation per the fixed asset register which reflects an amount of R4 868 492, resulting in a difference of R1 696 241.

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Government grants and subsidies

24. Revenue from government grants and subsidies includes an amount of R6 759 000 relating to conditional grants received as reflected in note 17 to the financial statements. In terms of the evidence provided, only R5 420 283 should have been recognized as income, whilst the full receipts for the year have been recognized. Accordingly, Revenue from government grants and subsidies is overstated by R1 338 717, resulting in the deficit for the year and unspent conditional grants liability is also understated by a similar amount.

Employee related costs

25. Discrepancies were identified in note 19 to the financial statements supporting the employee related costs balance of R11 450 417 reflected in the statement of financial performance:

- Allowances and benefits amounting to R408 810 in respect of key personnel were omitted from the note in contravention of section 124(1)(c) of the MFMA
- The employee related costs of R11 450 417 reflected on the statement of financial performance does not agree to the R8 941 937 disclosed in note 19 to the financial statements
- Further, note 30.2 is reflecting an incorrect amount of R2 868 868 as opposed to R2 453 360 per the payroll system and is hence overstated by R415 508

Repairs and maintenance

26. The comparative figure for repairs and maintenance reflected at RNil in the statement of financial performance does not agree to the prior year signed financial statements of R730 232. It was not possible to apply alternative procedures to obtain the necessary assurance on the nature and appropriateness of these disclosures.

Contracted Services

27. Note 23 to the financial statements in respect of contracted services of R3 482 436 is not supported with a breakdown of the contracted services. It was not possible to apply alternative procedures to obtain the necessary assurance on the nature and appropriateness of these disclosures.

General Expenses

28. No supporting documentation was provided to support journals processed to general expenditure to the value of R3 677 185. It was not possible to apply alternative procedures to obtain the necessary assurance on the nature and appropriateness of these journals.

29. The comparative figure for general expenses reflected at R32 390 921 in the statement of financial performance does not agree to the amount in the prior year audited financial statements Appendix D of R10 650 873. No supporting documents were provided detailing the composition of the R32 390 921 of general expenses for the prior year.

30. Note 24 to the financial statements supporting the current year figure for general expenses of R10 892 732 includes an amount of R5 926 967 described as "Other" and therefore a significant amount of general expenses has not been categorised.

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Expenses

31. Expenses to the value of R1 882 688 relating to the prior financial year and expenses to the value of R346 867 relating to the next financial year were incorrectly accounted for in the current year. The impact of this is that expenses is overstated by R2 229 555, whilst accumulated deficit at the end of the year is overstated by R2 229 555 and the accumulated deficit at the beginning of the year is understated by R1 882 688.

Unauthorised, irregular and fruitless and wasteful expenditure

32. Note 30 to the financial statements reflects an amount of R12 542 467 in respect of unauthorised expenditure. The effects of the adjustments to the financial statements have not been taken into account in this amount. Furthermore, Notes 30 and 30.1 to the financial statements in respect of unauthorized and fruitless and wasteful expenditure, does not fully describe the nature of the amounts disclosed as required in terms of Section 125 (2)(d) of the MFMA

Going concern

33. The municipality has not been in a position to settle its debts on a timely basis due to significant cash flow constraints. In addition, the liabilities of the Municipality as reflected on the statement of financial position significantly exceed the current assets. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Municipality's ability to continue as a going concern. This has not been disclosed in the financial statements.

Cash flow Statement

34. Detail of receipts and payments from operating activities for the current year are not disclosed in the cash flow statement. The total for net cash flows from operating activities is disclosed on the cash flow statement at R12 949 332. This does not agree to Note 26 to the financial statements of R9 689 888.

35. Cash flows from investing activities reflects R20 066 009 in respect of purchase of fixed assets. This does not agree to acquisitions of fixed assets per Note 4 to the financial statements which reflect acquisitions to the value of R294 491.

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36. The comparative for net cash and cash equivalents at the end of the period is disclosed as R4 872 937 on the cash flow statement. This does not agree to Note 27 reflecting an amount of R5 639 637.

37. Note 27 to the financial statements in respect of cash and cash equivalents describes the amounts of R13 994 017 and R5 639 637 as 'bank balances and cash' as opposed to bank overdrafts.

38. Therefore, I was unable to confirm the accuracy of the cash flow statement.

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Commitments

39. Commitments to the value of R346 867 are not disclosed in the notes to the financial statements, therefore impacting on the fair presentation and disclosure in terms of commitments.

Disclaimer of opinion

40. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Emphasis of matters

I draw attention to the following matters on which I do not express a disclaimer of opinion:

Restatement of corresponding figures

41. As disclosed in note 29 to the financial statements, the corresponding figures for other income for 30 June 2008 have been restated by R241 111 as a result of an error discovered during 30 June 2008/2009 in the financial statements of the Mbonambi Municipality at, and for the year ended, 30 June 2008.

Other matters

I draw attention to the following matters that relates to my responsibilities in the audit of the financial statements:

Material inconsistencies in information included in the Annual report

42. I have not obtained the other information included in the Annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

43. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary information set out on pages **XX** to **XX** does not form part of the financial statements and is presented as additional information. I do not express an opinion thereon.

Non-compliance with applicable legislation

Local Government: Municipal Finance Management Act (No.56 of 2003)

44. Instances of non-compliance with the MFMA, as described below were not disclosed in the notes to the annual financial statements as required by section 125 (2) (e) of the MFMA;
45. Requirements of section 29 of the MFMA were not complied with in terms of expenditure incurred for items not budgeted for, and expenditure incurred in excess of budgeted amounts, resulting in unauthorised expenditure;
46. There was no evidence of compliance with section 31 of the MFMA in respect of the overspending of R107 825 for capital expenditure budgeted for;
47. There was no evidence of compliance with requirements of section 32 of the MFMA in respect of unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality. There was also no evidence that the Mayor, MEC for local government in the province and the Auditor-General was

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informed of unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality in accordance with section 32(4) of the MFMA;

- | 48. The municipality had not paid creditors and contractors timeously resulting in non-compliance with section 65(2)(e) of the MFMA;
- | 49. There was no documentary evidence provided to indicate that the budget after being approved by council was submitted to National and Provincial Treasury per section 24 and section 27 of the MFMA;
- | 50. The adjustments budget was not accompanied by explanations in terms of section 28(5) of the MFMA.

GNR 868 Municipal Supply Chain Management Regulations

- 51. The municipality did not comply with Supply Chain Management Regulations 12, 16 and 17 in terms of obtaining the required number of quotations for procurement of goods. There was also no evidence of compliance with regulation 43, which requires the municipality to ensure that for awards above R15 000, the supplier's tax matters are in order. It was also noted that the list of accredited prospective providers was not updated quarterly by the municipality and that no invitations were made via newspapers to invite prospective providers to apply for listing as required by Regulation 14 of the Supply Chain Management Regulations.
- 52. Tenders were awarded to contractors who did not meet the requirements for the tender, and the awards were contrary to the recommendations of the Bid Evaluation Committee, resulting in non-compliance with Par 29(5)(a) and (b) of the Supply Chain Management regulations.

Income Tax Act No. 58 of 1962

- 53. There was no evidence of payments to South African Revenue Services (SARS) in respect of Pay As You Earn / Unemployment Insurance Fund and Skills Development Levy during the year. Total outstanding payments for the year amounted to R2 453 360. Furthermore, PAYE in respect of the housing fringe benefit for employees was not calculated and paid over to SARS.

Pension Fund Act No. 24 of 1956

- 54. The municipality did not pay the employer and member contributions in respect of the Natal Joint Municipal Pension Fund within the required time period. In terms of S13 A of the Pension Fund Act the municipality is obligated to make these payments and non-payment has resulted in additional penalties and interest.

Budgetary Preparation and Control

- 55. In addition to non-compliance issues in respect of the budgeting process as documented in Par 8, 9 12, 13, 15 and 16 above, the adjustment budget was adjusted downwards in respect of assessment rates from R2 429 073 to R10 360, however the actual amount received was R2 471 797.57. It was noted

that suspense accounts ('Creditors Budget Overspent and Salary suspense Control') were also included in the budget.

Governance framework

56. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Internal control deficiencies

57. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. (The number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

| Par. no. | Basis for disclaimer of opinion | CE | RA | CA | IC | M |
|----------|---|-----|----|----|----|-----|
| 5. | Trade and other Receivables from exchange transactions | | | | | 1 |
| 6. | Other Receivables from non-exchange transactions | 5-6 | | | | 1 |
| 7 | VALUE ADDED TAX receivable | 5-6 | | | | 1 |
| 8. | Unspent Conditional Grants | 5-6 | | | | 1 |
| 9-14. | Property, Plant and Equipment | 5-6 | | | | 1 |
| 15. | Investment Property carried at cost | 5-6 | | | | 1 |
| 16-18. | Trade and other payables from exchange transactions | 5-6 | | 3 | | 3 |
| 19. | Provisions for leave and bonus | 5-6 | | | | 1 |
| 20-21. | Bank overdraft | 5-6 | | | | 1-3 |
| 22-23. | Accumulated Deficit | 5-6 | | 3 | | 1 |
| 24. | Government grants and subsidies | 5-6 | | 3 | | 1 |
| 25. | Employee related costs | 5-6 | | | | 1 |
| 26. | Repairs and maintenance | 5-6 | | | | 1 |
| 27. | Contracted services | 5-6 | | | | 1 |
| 28-30. | General Expenditure | 5-6 | | | | 1 |
| 31. | Expenses | 5-6 | | 3 | | 1 |
| 32. | Unauthorised, irregular, fruitless and wasteful expenditure | 5-6 | | | | 1 |
| 33. | Going concern | 5-6 | | | 1 | |
| 34-38 | Cash Flow Statement | 5-6 | | | | 1 |
| 39. | Commitments | 5-6 | | | | 1 |

58. Based on the above significant weaknesses have been identified in the overall internal control environment and governance framework of the municipality which needs to be addressed.

| Legend | |
|---|---|
| CE = Control environment | |
| The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting. | 1 |
| Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting. | 2 |
| Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel. | 3 |
| Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting. | 4 |
| The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control. | 5 |
| Management's philosophy and operating style do not promote effective control over financial reporting. | 6 |
| The entity does not have individuals competent in financial reporting and related matters. | 7 |
| RA = Risk assessment | |
| Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting. | 1 |
| The entity does not identify risks to the achievement of financial reporting objectives. | 2 |
| The entity does not analyse the likelihood and impact of the risks identified. | 3 |
| The entity does not determine a risk strategy/action plan to manage identified risks. | 4 |
| The potential for material misstatement due to fraud is not considered. | 5 |
| CA = Control activities | |
| There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation. | 1 |
| General information technology controls have not been designed to maintain the integrity of the information system and the security of the data. | 2 |
| Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed. | 3 |
| Actions are not taken to address risks to the achievement of financial reporting objectives. | 4 |
| Control activities are not selected and developed to mitigate risks over financial reporting. | 5 |
| Policies and procedures related to financial reporting are not established and communicated. | 6 |
| Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system. | 7 |
| IC = Information and communication | |
| Pertinent information is not identified and captured in a form and time frame to support financial reporting. | 1 |
| Information required to implement internal control is not available to personnel to enable internal control responsibilities. | 2 |
| Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel. | 3 |
| M = Monitoring | |
| Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting. | 1 |
| Neither reviews by internal audit or the audit committee nor self -assessments are evident. | 2 |
| Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken. | 3 |

Key governance responsibilities

59. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

| No. | Matter | Y | N |
|---|--|--------------------------|--------------------------|
| Clear trail of supporting documentation that is easily available and provided in a timely manner | | | |
| 1. | No significant difficulties were experienced during the audit concerning delays or the availability of requested information. | <input type="checkbox"/> | <input type="checkbox"/> |
| Quality of financial statements and related management information | | | |
| 2. | The financial statements were not subject to any material amendments resulting from the audit. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. | The annual report was submitted for consideration prior to the tabling of the auditor's report. | <input type="checkbox"/> | <input type="checkbox"/> |
| Timeliness of financial statements and management information | | | |
| 4. | The annual financial statements were submitted for auditing as per the legislated deadlines [section 126 of the MFMA]. | <input type="checkbox"/> | <input type="checkbox"/> |
| Availability of key officials during audit | | | |
| 5. | Key officials were available throughout the audit process. | <input type="checkbox"/> | <input type="checkbox"/> |
| Development and compliance with risk management, effective internal control and governance practices | | | |
| 6. | Audit committee | <input type="checkbox"/> | <input type="checkbox"/> |
| | <ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year. | <input type="checkbox"/> | <input type="checkbox"/> |
| | <ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. | <input type="checkbox"/> | <input type="checkbox"/> |
| | <ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. | Internal audit | <input type="checkbox"/> | <input type="checkbox"/> |
| | <ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. | <input type="checkbox"/> | <input type="checkbox"/> |
| | <ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. | <input type="checkbox"/> | <input type="checkbox"/> |
| | <ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. | There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management. | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. | There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations. | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. | The information systems were appropriate to facilitate the preparation of the financial statements. | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. | A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA. | <input type="checkbox"/> | <input type="checkbox"/> |

| No. | Matter | Y | N |
|--|--|--------------------------|--------------------------|
| 12. | Delegations of responsibility are in place, as set out in section 79/106 of the MFMA. | <input type="checkbox"/> | |
| Follow-up of audit findings | | | |
| 13. | The prior year audit findings have been substantially addressed. | | <input type="checkbox"/> |
| 14. | SCOPA/Oversight resolutions have been substantially implemented. | | <input type="checkbox"/> |
| Issues relating to the reporting of performance information | | | |
| 15. | The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete. | | <input type="checkbox"/> |
| 16. | Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information. | | <input type="checkbox"/> |
| 17. | A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipality against its mandate, predetermined objectives, outputs, indicators and targets section 68 of the MFMA (municipalities). | | <input type="checkbox"/> |
| 18. | There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance. | <input type="checkbox"/> | |

60. Based on the above, the overall governance framework of the municipality is weak and requires improvement.

Investigation

61. An investigation is currently being conducted by the internal auditors into various allegations at the Municipality's traffic unit. The investigation is expected to be concluded in the 2009/10 financial year.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

62. I have reviewed the performance information as set out on pages xx to xx.

The accounting officer's responsibility for the performance information

63. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

64. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

65. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance

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information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

66. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings on performance information

Content of integrated development plan

67. The integrated development plan of the Mbonambi Municipality did not include input and outcome indicators with regard to the municipality's development priorities and objectives set out in its IDP.

Reported performance information not reliable

68. It was noted that the development strategies indicated on the report of the annual performance information do not correspond with the development strategies included in the IDP. There was no clear link between the IDP and the Performance information report. I was therefore unable to satisfy myself as to the completeness and accuracy of information reported on performance information.

APPRECIATION

69. The assistance rendered by the staff of the Mbonambi Municipality during the audit is sincerely appreciated.

Pietermaritzburg

30 November 2009



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

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